

CITY OF LAKE MILLS

INDEPENDENT AUDITOR'S REPORT
BASIC FINANCIAL STATEMENTS AND
SUPPLEMENTARY AND OTHER INFORMATION
SCHEDULE OF FINDINGS

JUNE 30, 2016

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CITY OF LAKE MILLS

OFFICIALS

(Before January 2016)

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
David E. Steffens	Mayor	Jan 2016
Candy Hanna	Mayor Pro tem	Jan 2018
Bill Clark	Council Member	Jan 2016
Nathan Ostrander	Council Member	Jan 2018
Tony Sorenson	Council Member	Jan 2016
Stephanie Steffens	Council Member	Jan 2016
Sheryl Bell	City Clerk/Treasurer	Indefinite
Richard Schwarm	Attorney	Indefinite

(After January 2016)

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Candy Hanna	Mayor	Jan 2018
Tony Sorenson	Mayor Pro tem	Jan 2020
Bill Clark	Council Member	Jan 2020
Scott Flugum	Council Member	Jan 2020
Nathan Ostrander	Council Member	Jan 2018
Stephanie Steffens	Council Member	Jan 2018
Sheryl Bell	City Clerk/Treasurer	Jan 2018
Richard Schwarm	Attorney	Indefinite



Renner & Birchem, PC

Certified Public Accountants

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Independent Auditor's Report

To the Honorable Mayor and
Members of the City Council:

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of City of Lake Mills, Iowa, as of and for the year ended June 30, 2016, and the related Notes to Financial Statements, which collectively comprise the City's basic financial statements listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the cash basis of accounting described in Note 1. This includes determining the cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. This includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the City's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of City of Lake Mills as of June 30, 2016, and the respective changes in its cash basis financial position for the year then ended in accordance with the basis of accounting described in Note 1.

Basis of Accounting

As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a basis of accounting other than U.S. generally accepted accounting principles. Our opinions are not modified with respect to this matter.

Other Matters

Supplementary and Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise City of Lake Mills basic financial statements. We previously audited, in accordance with the standards referred to in the third paragraph of this report, the financial statements for the year ended June 30, 2015 (which is not presented herein) and expressed unmodified opinions on those financial statements which were prepared on the basis of cash receipts and disbursements. The financial statements for the eight years ended June 30, 2014 (which are not presented herein) were audited by other auditors who expressed unmodified opinions on those financial statements which were prepared on the basis of cash receipts and disbursements. The supplementary information included in Schedules 1 through 4, is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with U.S. generally accepted auditing standards. In our opinion, the supplementary information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The other information, the City's Management's Discussion and Analysis, the budgetary comparison information, the Schedule of the City's Proportionate Share of the Net Pension Liability, and the Schedule of City Contributions on pages 6 through 11 and 29 through 33, has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated September 19, 2016 on our consideration of City of Lake Mills's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering City of Lake Mills's internal control over financial reporting and compliance.

September 19, 2016



Renner & Birchem, P.C.
Britt, Iowa

MANAGEMENT'S DISCUSSION AND ANALYSIS

The City of Lake Mills provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2016. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

2016 FINANCIAL HIGHLIGHTS

- Revenues of the City's governmental activities realized an increase of 3.0% or approximately \$70,746 from fiscal 2015 to fiscal 2016.
- Disbursements decreased 8.3% or approximately \$195,885, in fiscal year 2016 from fiscal year 2015.
- The City's total cash basis net position increased approximately \$736,535 from June 30, 2015 to June 30, 2016. Of this amount, the cash basis net position of the governmental activities increased approximately \$547,360 and the cash basis net position of the business type activities increased approximately \$189,175.

USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the City's financial activities.

The Government-wide Financial Statement consists of a Cash Basis Statement of Activities and Net Position. This statement provides information about the activities of the City as a whole and presents an overall view of the City's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report the City's operations in more detail than the government-wide financial statement by providing information about the most significant funds.

Notes to Financial Statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Other Information further explains and supports the financial statements with a comparison of the City's budget for the year and the City's proportionate share of the net pension liability and related contributions.

Supplementary Information provides detailed information about the non-major governmental funds and the City's indebtedness.

BASIS OF ACCOUNTING

The City maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles. Therefore, when reviewing the financial information and discussion within this annual report, readers should keep in mind the limitations resulting from the use of the cash basis of accounting.

REPORTING THE CITY'S FINANCIAL ACTIVITIES

Government-wide Financial Statement

One of the most important questions asked about the City's finances is, "Is the City as a whole better off or worse off as a result of the year's activities?" The Cash Basis Statement of Activities and Net Position reports information which helps answer this question.

The Cash Basis Statement of Activities and Net Position presents the City's net position. Over time, increases or decreases in the City's net position may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The Cash Basis Statement of Activities and Net Position is divided into two kinds of activities:

- Governmental Activities include public safety, public works, culture and recreation, community and economic development, general government, debt service and capital projects. Property tax and other general receipts finance most of these activities.
- Business Type Activities include the waterworks, sanitary sewer, electric and storm sewer systems. These activities are financed primarily by user charges.

Fund Financial Statements

The City has two kinds of funds:

1) Governmental funds account for most of the City's basic services. These focus on how money flows into and out of those funds, and the balances at year-end that are available for spending. The governmental funds include: A) the General Fund, B) the Special Revenue Funds, such as Road Use Tax and Urban Renewal Tax Increment, C) the Debt Service Fund, D) the Capital Projects Fund and E) the Permanent Fund. The governmental fund financial statements provide a detailed, short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.

The required financial statement for governmental funds is a Statement of Cash Receipts, Disbursements and Changes in Cash Balances.

2) Proprietary funds account for the City's Enterprise Funds. Enterprise Funds are used to report business type activities. The City maintains four Enterprise Funds to provide separate information for the water, sewer, electric and storm sewer funds, considered to be major funds of the City.

The required financial statement for proprietary funds is a Statement of Cash Receipts, Disbursements and Changes in Cash Balances.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net position may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities shows an increase of 18.6% from \$2,944,789 to \$3,492,149. The analysis to follow focuses on the changes in cash basis net position of governmental activities.

Changes in Cash Basis Net Position of Governmental Activities		
	Year ended June 30,	
	2016	2015
Receipts:		
Program receipts:		
Charges for service	\$ 257,896	246,846
Operating grants and contributions	260,846	285,493
Capital grants and contributions		
General receipts:		
Property tax	555,541	574,950
Tax increment financing	803,693	776,806
Local option sales tax	187,807	211,088
Special assessments	26,448	18,531
Commercial/industrial tax replacements	24,710	
Unrestricted investment earnings	117,356	92,636
Other general receipts	224,755	178,501
Sale of assets		3,455
Total receipts	2,459,052	2,388,306
Disbursements:		
Public safety	546,417	576,873
Public works	423,453	439,916
Culture and recreation	452,252	450,237
Community and economic development	100,026	56,357
General government	102,759	91,823
Debt service	321,900	315,920
Capital projects	205,923	417,489
Total disbursements	2,152,730	2,348,615
Change in cash basis net position before transfers	306,322	39,691
Transfers, net	241,038	211,472
Change in cash basis net position	547,360	251,163
Cash basis net position beginning of year	2,944,789	2,693,626
Cash basis net position end of year	\$ 3,492,149	2,944,789

The City's total receipts for governmental activities increased approximately \$701,746 or 3.0%. While maintaining a steady rate, property tax receipts for the year showed a decrease of over \$19,409.

The cost of all governmental activities this year was \$2,152,730 compared to \$2,348,615 last year. However, as shown in the Statement of Activities and Net Position on page 13, the amount taxpayers financed for these activities was \$1.6 million. Some of the cost was paid by those directly benefited from the programs (\$257,896) or by other governments and organizations that subsidized certain programs with grants, contributions and restricted interest (\$260,846). Overall, the City's governmental activities receipts, including intergovernmental aid and fees for service, decreased from approximately \$532,000 to \$518,700. The City paid for the remaining "public benefit" portion of governmental activities (\$1.6 million) with taxes (some of which could only be used for certain programs) and with other receipts, such as interest, local option sales tax and miscellaneous receipts.

Changes in Cash Basis Net Position of Business Type Activities		
	Year ended June 30,	
	2016	2015
Receipts:		
Program receipts:		
Charges for service		
Water	\$ 381,279	363,377
Sewer	519,919	526,297
Electric	3,044,692	3,186,315
Storm sewer	49,461	49,364
General receipts:		
Unrestricted interest on investments	96,585	85,141
Miscellaneous	177,146	59,629
Total receipts	4,269,082	4,270,123
Disbursements and transfers:		
Water	349,075	368,907
Sewer	256,055	337,035
Electric	2,943,550	2,390,867
Storm sewer	290,189	64,019
Total disbursements	3,838,869	3,160,828
Change in cash basis net position before transfers	430,213	1,109,295
Transfers, net	(241,038)	(211,472)
Change in cash basis net position	189,175	897,823
Cash basis net position beginning of year	10,611,082	9,713,259
Cash basis net position end of year	\$ 10,800,257	10,611,082

Total business type activities receipts for the fiscal year were \$4,269,082 compared to \$4,270,123 last year. Total disbursements for the fiscal year decreased 21.5% to \$3,838,869.

INDIVIDUAL MAJOR AND NON-MAJOR GOVERNMENTAL FUND ANALYSIS

As the City of Lake Mills completed the year, its governmental funds reported a combined fund balance of \$3,492,149, an increase of \$547,360 from last year's total of \$2,944,789. The following are the reasons for the changes in fund balances of the major funds from the prior year.

- The General Fund cash balance increased \$182,412 from the prior year to \$2,415,948. The city hopes to use these receipts to help offset future property tax increases.
- The Road Use Tax Fund cash balance increased by \$53,430 to \$411,460. The City intends to use this money to upgrade the condition of all City roads.
- The TIF Fund cash balance decreased by \$28,993 to \$35,833.
- The Debt Service Fund cash balance decreased by \$9,522 to \$50,729 during the fiscal year.
- The Capital Projects Fund cash balance increased by \$260,259 to \$493,773.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

- The Enterprise, Water Fund cash balance increased by \$49,962 to \$516,782.
- The Enterprise, Sewer Fund cash balance increased by \$231,722 to \$1,653,497.
- The Enterprise, Storm Sewer Fund cash balance realized a decrease of \$212,045 to \$669,569.
- The Enterprise, Electric Fund cash balance increased by \$119,536 to \$7,960,409.

BUDGETARY HIGHLIGHTS

Over the course of the year, the City amended its budget once. The first amendment was approved on May 16, 2016 and resulted in an increase in operating disbursements related to the in the amount of \$829,610. The City had sufficient cash balances to absorb these additional costs.

DEBT ADMINISTRATION

At June 30, 2016, the City had \$535,000 in bonds and other long-term debt, compared to \$873,000 the previous year, as shown below.

Outstanding Debt at Year-End		
	Year ended June 30,	
	2016	2015
General obligation notes	\$ 200,000	510,000
Revenue bonds	335,000	363,000
Total	\$ 535,000	873,000

The Constitution of the State of Iowa limits the amount of general obligation debt cities can issue to 5% of the assessed value of all taxable property within the City's corporate limits. The City's outstanding general obligation debt of \$200,000 is below its constitutional debt limit of \$5,093,597.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

Lake Mills elected and appointed officials considered many factors when setting the fiscal year 2016 budget, tax rates and fees charged for various City activities. As state and national economic conditions continue to improve, Lake Mills shares in the optimism. With an unemployment rate of 3.9%, well below the national level of 5.3%, the local economy remains steady. City officials continue to be cautious looking to maintain a strong financial position when addressing government spending and yet were able to maintain the same tax rate of for the fourth year in a row.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Sheryl Bell, City Clerk/Treasurer, 105 West Main Street, Lake Mills, Iowa.

BASIC FINANCIAL STATEMENTS

Cash Basis Statement of Activities and Net Position

As of and for the year ended June 30, 2016

Functions / Programs:	Program Receipts			Net (Disbursements) Receipts and Changes in Cash Basis Net Position		
	Disbursements	Charges for Service	Operating Grants, Contributions and Restricted Interest	Business		
				Governmental Activities	Type Activities	Total
Governmental activities:						
Public safety	\$ 546,417			(546,417)		(546,417)
Public works	423,453	179,357	259,516	15,420		15,420
Culture and recreation	452,252	78,539	1,330	(372,383)		(372,383)
Community and economic development	100,026			(100,026)		(100,026)
General government	102,759			(102,759)		(102,759)
Debt service	321,900			(321,900)		(321,900)
Capital projects	205,923			(205,923)		(205,923)
Total governmental activities	2,152,730	257,896	260,846	(1,633,988)		(1,633,988)
Business type activities:						
Electric	2,943,550	3,044,692			101,142	101,142
Water	349,075	381,279			32,204	32,204
Sewer	256,055	519,919			263,864	263,864
Storm sewer	290,189	49,461			(240,728)	(240,728)
Total business type activities	3,838,869	3,995,351			156,482	156,482
Total	\$ 5,991,599	4,253,247	260,846	(1,633,988)	156,482	(1,477,506)
General Receipts:						
Property tax levied for:						
General purposes				\$ 545,438		545,438
Debt service				10,103		10,103
Tax increment financing				803,693		803,693
Local option sales tax				187,807		187,807
Special assessments				26,448		26,448
Commercial/industrial tax replacement				24,710		24,710
Unrestricted interest on investments				117,356	96,585	213,941
Miscellaneous				224,755	177,146	401,901
Transfers				241,038	(241,038)	
Total general receipts and transfers				2,181,348	32,693	2,214,041
Change in cash basis net position				547,360	189,175	736,535
Cash basis net position beginning of year				2,944,789	10,611,082	13,555,871
Cash basis net position end of year				\$ 3,492,149	10,800,257	14,292,406
Cash Basis Net Position						
Restricted:						
Nonexpendable:						
Permanent				\$ 50,983		50,983
Expendable:						
Streets				411,460		411,460
Urban renewal purposes				35,833		35,833
Debt service				50,729		50,729
Equipment purchase					803,146	803,146
Other purposes				527,196		527,196
Unrestricted				2,415,948	9,997,111	12,413,059
Total cash basis net position				\$ 3,492,149	10,800,257	14,292,406

See notes to financial statements.

Statement of Cash Receipts, Disbursements and Changes in Cash Balances
Governmental Funds

As of and for the year ended June 30, 2016

	Special Revenue			Debt Service	Capital Projects	Nonmajor	Total
	General	RUT	Urban Renewal Tax Increment				
Receipts:							
Property tax	\$ 373,241			10,103		172,197	555,541
Tax increment financing			803,693				803,693
Other city tax	189,278			27			189,305
Licenses and permits	6,459						6,459
Use of money and property	114,474		1,469			1,413	117,356
Intergovernmental	79,809	259,516		348		7,782	347,455
Charges for service	257,896						257,896
Special assessments			9,084		17,364		26,448
Miscellaneous	79,875		5,663		1,000	68,361	154,899
Total receipts	1,101,032	259,516	819,909	10,478	18,364	249,753	2,459,052
Disbursements:							
Operating:							
Public safety	546,417						546,417
Public works	224,820	184,184				14,449	423,453
Culture and recreation	452,252						452,252
Community and economic development	5,169		83,337			11,520	100,026
General government	90,742					12,017	102,759
Debt service				321,900			321,900
Capital projects					205,923		205,923
Total disbursements	1,319,400	184,184	83,337	321,900	205,923	37,986	2,152,730
Excess (deficiency) of receipts over (under) disbursements	(218,368)	75,332	736,572	(311,422)	(187,559)	211,767	306,322
Other financing sources (uses):							
Operating transfers in	400,780	7,911		301,900	450,711		1,161,302
Operating transfers out		(29,813)	(707,579)		(2,893)	(179,979)	(920,264)
Total other financing sources (uses)	400,780	(21,902)	(707,579)	301,900	447,818	(179,979)	241,038
Change in cash balances	182,412	53,430	28,993	(9,522)	260,259	31,788	547,360
Cash balances beginning of year	2,233,536	358,030	6,840	60,251	233,514	52,618	2,944,789
Cash balances end of year	\$ 2,415,948	411,460	35,833	50,729	493,773	84,406	3,492,149
Cash Basis Fund Balances							
Nonspendable - Permanent Fund						50,983	50,983
Restricted for:							
Debt service				50,729			50,729
Streets		411,460					411,460
Other purposes			35,833		493,773	33,423	563,029
Unassigned	\$ 2,415,948						2,415,948
Total cash basis fund balances	\$ 2,415,948	411,460	35,833	50,729	493,773	84,406	3,492,149

See notes to financial statements.

City of Lake Mills

Statement of Cash Receipts, Disbursements and Changes in Cash Balances
Proprietary Funds

As of and for the year ended June 30, 2016

\	Enterprise				Total
	Water	Sewer	Storm Sewer	Electric	
Operating receipts:					
Charges for service	\$ 381,279	519,919	49,461	3,044,692	3,995,351
Total operating receipts	381,279	519,919	49,461	3,044,692	3,995,351
Operating disbursements:					
Business type activities	309,277	256,055	290,189	2,943,550	3,799,071
Total operating disbursements	309,277	256,055	290,189	2,943,550	3,799,071
Excess (deficiency) of operating receipts over (under) operating disbursements	72,002	263,864	(240,728)	101,142	196,280
Non-operating receipts (disbursements):					
Interest on investments	1,283	10,882		84,420	96,585
Debt service	(39,798)				(39,798)
Miscellaneous	16,475	1,643	28,683	130,345	177,146
Net non-operating receipts (disbursements)	(22,040)	12,525	28,683	214,765	233,933
Excess (deficiency) of receipts over (under) disbursements	49,962	276,389	(212,045)	315,907	430,213
Transfers:					
Operating transfers in		45		25,000	25,045
Operating transfers out		(44,712)		(221,371)	(266,083)
Net transfers		(44,667)		(196,371)	(241,038)
Change in cash balances	49,962	231,722	(212,045)	119,536	189,175
Cash balances beginning of year	466,820	1,421,775	881,614	7,840,873	10,611,082
Cash balances end of year	\$ 516,782	1,653,497	669,569	7,960,409	10,800,257
Cash Basis Fund Balances					
Restricted for equipment purchase				803,146	803,146
Unrestricted	\$ 516,782	1,653,497	669,569	7,157,263	9,997,111
Total cash basis fund balances	\$ 516,782	1,653,497	669,569	7,960,409	10,800,257

See notes to financial statements.

CITY OF LAKE MILLS

Notes to Financial Statements

June 30, 2016

(1) Summary of Significant Accounting Policies

The City of Lake Mills is a political subdivision of the State of Iowa located in Winnebago County. It was first incorporated in 1869 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens including public safety, public works, culture and recreation, community and economic development and general government services. The City of Lake Mills also provides water, sewer, electric, and storm water utilities for its citizens.

A. Reporting Entity

For financial reporting purposes, City of Lake Mills has included all funds, organizations, agencies, boards, commissions and authorities. The City has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the City to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the City. The City has no component units which meet the Governmental Accounting Standards Board criteria.

Jointly Governed Organizations

The City participates in several jointly governed organizations that provide goods or services to the citizenry of the City but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. City officials are members of the following boards and commissions: Winnebago County Commission Board, Winnebago County E911 Board and Winnebago County Assessors Compensation Board.

B. Basis of Presentation

Government-wide Financial Statement – The Cash Basis Statement of Activities and Net Position reports information on all of the nonfiduciary activities of the City. For the most part, the effect of interfund activity has been removed from this statement. Governmental activities, which are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for service.

The Cash Basis Statement of Activities and Net Position presents the City's nonfiduciary net position. Net position is reported in the following categories/components:

CITY OF LAKE MILLS

Notes to Financial Statements

June 30, 2016

Nonexpendable restricted net position is subject to externally imposed stipulations which require the cash balance to be maintained permanently by the City, including the City's Permanent Fund.

Expendable restricted net position results when constraints placed on the use of cash balances are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net position consists of cash balances not meeting the definition of the preceding categories. Unrestricted net position is often subject to constraints imposed by management which can be removed or modified.

The Cash Basis Statement of Activities and Net Position demonstrates the degree to which the direct disbursements of a given function are offset by program receipts. Direct disbursements are those clearly identifiable with a specific function. Program receipts include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function and 2) grants, contributions and interest on investments restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program receipts are reported instead as general receipts.

Fund Financial Statements - Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as nonmajor governmental funds.

The City reports the following major governmental funds:

The General Fund is the general operating fund of the City. All general tax receipts and other receipts not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating disbursements, the fixed charges and the capital improvement costs not paid from other funds.

Special Revenue:

The Road Use Tax Fund is used to account for the road use tax allocation from the State of Iowa to be used for road construction and maintenance.

The Urban Renewal Tax Increment Fund is used to account for tax increment financing collections and the repayment of tax increment financing indebtedness.

The Debt Service Fund is utilized to account for the payment of interest and principal on the City's general long-term debt.

The Capital Projects Fund is used to account for all resources used in the acquisition and construction of capital facilities.

CITY OF LAKE MILLS

Notes to Financial Statements

June 30, 2016

The City reports the following major proprietary funds:

The Enterprise, Electric Fund accounts for the operation & maintenance of City's electric utility system.

The Enterprise, Water Fund accounts for the operation and maintenance of the City's water system.

The Enterprise, Sewer Fund accounts for the operation and maintenance of the City's waste water treatment and sanitary sewer system.

The Enterprise, Storm Sewer Fund accounts for the operation and maintenance of the City's storm sewer system.

C. Measurement Focus and Basis of Accounting

The City maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles.

Under the terms of grant agreements, the City funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants and general receipts. Thus, when program disbursements are paid, there are both restricted and unrestricted cash basis net position available to finance the program. It is the City's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants and then by general receipts.

When a disbursement in governmental funds can be paid using either restricted or unrestricted resources, the City's policy is generally to first apply the disbursement toward restricted fund balance and then to less-restrictive classifications – committed, assigned and then unassigned fund balances.

Proprietary funds distinguish operating receipts and disbursements from non-operating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All receipts and disbursements not meeting this definition are reported as non-operating receipts and disbursements.

D. Governmental Cash Basis Fund Balances:

In the governmental fund financial statements, cash basis fund balances are classified as follows:

Nonspendable – Amounts which cannot be spent because they are legally or contractually required to be maintained intact.

CITY OF LAKE MILLS

Notes to Financial Statements

June 30, 2016

Restricted – Amounts restricted to specific purposes when constraints placed on the use of the resources are either externally imposed by creditors, grantors or state or federal laws or are imposed by law through constitutional provisions or enabling legislation.

Assigned – Amounts the City Council intends to use for specific purposes.

Unassigned – All amounts not included in the preceding classifications.

E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Other Information.

(2) Cash and Pooled Investments

The City's deposits in banks at June 30, 2016 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The City is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the City Council; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

At June 30, 2016 the City had the following investments:

The City had investments in the Iowa Public Agency Investment Trust valued at \$124,834. The City's investment in the Iowa Public Agency Investment Trust is unrated.

Interest rate risk-The City's investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) to instruments that mature within 365 days. Funds not identified as operating funds may be invested in investments with maturities longer than 365 days, but the maturities shall be consistent with the needs and use of the City.

CITY OF LAKE MILLS

Notes to Financial Statements

June 30, 2016

(3) Bonds and Notes Payable

Annual debt service requirements to maturity for general obligation notes and revenue notes are as follows:

Year Ending June 30,	General Obligation Notes		Revenue Notes		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2017	\$ 100,000	6,250	29,000	10,050	129,000	16,300
2018	100,000	3,250	30,000	9,180	130,000	12,430
2019			31,000	8,280	31,000	8,280
2020			32,000	7,350	32,000	7,350
2021			33,000	6,390	33,000	6,390
2022-2026			180,000	16,500	180,000	16,500
	<u>\$ 200,000</u>	<u>9,500</u>	<u>335,000</u>	<u>57,750</u>	<u>535,000</u>	<u>67,250</u>

Revenue Notes

The City has pledged future water customer receipts, net of specific operating disbursements to repay \$540,000 of water revenue notes issued in August 2008. Proceeds from the notes provided financing for the construction improvements and extensions to the municipal waterworks system of the City. The notes are payable solely from water customer net receipts and are payable through 2026. Total principal and interest remaining to be paid on the notes is \$392,750. For the current year, principal and interest paid and total customer receipts were \$38,890 and \$381,279, respectively.

The resolutions providing for the issuance of the revenue notes include the following provisions:

- The notes will only be redeemed from the future earnings of the enterprise activity and the note holders hold a lien on the future earnings of the funds.
- Sufficient monthly transfers shall be made to a separate water revenue note sinking fund within the Enterprise Funds for the purpose of making the bond principal and interest payments when due.
- All funds remaining in the water account after the payment of all maintenance and operating expenses and required transfers shall be placed in a surplus fund within the Enterprise Funds. All money credited to the surplus fund shall be transferred and credited to the sinking fund whenever necessary to prevent or remedy a default in the payment of the principal of or interest on the notes.

CITY OF LAKE MILLS

Notes to Financial Statements

June 30, 2016

(4) Pension Plans

Plan Description - IPERS membership is mandatory for employees of the City, except for those covered by another retirement system. Employees of the City are provided with pensions through a cost-sharing multiple employer defined benefit pension plan administered by Iowa Public Employees' Retirement System (IPERS). IPERS issues a stand-alone financial report which is available to the public by mail at 7401 Register Drive P.O. Box 9117, Des Moines, Iowa 50306-9117 or at www.ipers.org.

IPERS benefits are established under Iowa Code chapter 97B and the administrative rules thereunder. Chapter 97B and the administrative rules are the official plan documents. The following brief description is provided for general informational purposes only. Refer to the plan documents for more information.

Pension Benefits – A regular member may retire at normal retirement age and receive monthly benefits without an early-retirement reduction. Normal retirement age is age 65, anytime after reaching age 62 with 20 or more years of covered employment, or when the member's years of service plus the member's age at the last birthday equals or exceeds 88, whichever comes first. These qualifications must be met on the member's first month of entitlement to benefits. Members cannot begin receiving retirement benefits before age 55. The formula used to calculate a Regular member's monthly IPERS benefit includes:

- A multiplier based on years of service.
- The member's highest five-year average salary, except members with service before June 30, 2012, will use the highest three-year average salary as of that date if it is greater than the highest five-year average salary.

Protection occupation members may retire at normal retirement age, which is generally age 55. The formula used to calculate a protection occupation member's monthly IPERS benefit includes:

- 60% of average salary after completion of 22 years of service, plus an additional 1.5% of average salary for more than 22 years of service but not more than 30 years of service.
- The member's highest three-year average salary.

If a member retires before normal retirement age, the member's monthly retirement benefit will be permanently reduced by an early-retirement reduction. The early-retirement reduction is calculated differently for service earned before and after July 1, 2012. For service earned before July 1, 2012, the reduction is 0.25 percent for each month that the member receives benefits before the member's earliest normal retirement age. For service earned on or after July 1, 2012, the reduction is 0.50 percent for each month the member receives benefits before age 65.

Generally, once a member selects a benefit option, a monthly benefit is calculated and remains the same for the rest of the member's lifetime. However, to combat the effects of inflation, retirees who began receiving benefits prior to July 1990 receive a guaranteed dividend with their regular November benefit payments.

CITY OF LAKE MILLS

Notes to Financial Statements

June 30, 2016

Disability and Death Benefits - A vested member who is awarded federal Social Security disability or Railroad Retirement disability benefits is eligible to claim IPERS benefits regardless of age. Disability benefits are not reduced for early retirement. If a member dies before retirement, the member's beneficiary will receive a lifetime annuity or a lump-sum payment equal to the present actuarial value of the member's accrued benefit or calculated with a set formula, whichever is greater. When a member dies after retirement, death benefits depend on the benefit option the member selected at retirement.

Contributions - Contribution rates are established by IPERS following the annual actuarial valuation, which applies IPERS' Contribution Rate Funding Policy and Actuarial Amortization Method. Statute limits the amount rates can increase or decrease each year to 1 percentage point. IPERS Contribution Rate Funding Policy requires that the actuarial contribution rate be determined using the "entry age normal" actuarial cost method and the actuarial assumptions and methods approved by the IPERS Investment Board. The actuarial contribution rate covers normal cost plus the unfunded actuarial liability payment based on a 30-year amortization period. The payment to amortize the unfunded actuarial liability is determined as a level percentage of payroll based on the Actuarial Amortization Method adopted by the Investment Board.

In fiscal year 2016, pursuant to the required rate, Regular members contributed 5.95% of covered payroll and the City contributed 8.93% of covered payroll, for a total rate of 14.88%. Protection occupation members contributed 6.56% of covered payroll and the City contributed 9.84% of covered payroll, for a total rate of 16.40%.

The City's contributions to IPERS for the year ended June 30, 2016 were \$98,967.

Net Pension Liability, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions - At June 30, 2016, the City liability for its proportionate share of the collective net pension liability totaled \$519,119. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The City's proportion of the net pension liability was based on the City's share of contributions to IPERS relative to the contributions of all IPERS participating employers. At June 30, 2015, the City's proportion was 0.0105075%, which was an increase of 0.000430% from its proportion measured as of June 30, 2014.

For the year ended June 30, 2016, the City's pension expense, deferred outflows of resources and deferred inflows of resources totaled \$56,241, \$137,632 and \$184,951 respectively.

There were no non-employer contributing entities to IPERS.

Actuarial Assumptions - The total pension liability in the June 30, 2015 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement, as follows:

Rate of inflation (effective June 30, 2014)	3.00% per annum.
Rates of salary increase (effective June 30, 2010)	4.00 to 17.00% average, including inflation. Rates vary by membership group.
Long-term investment rate of return (effective June 30, 1996)	7.50 %compounded annually, net of investment expense, including inflation.
Wage growth (effective June 30, 2010)	4.00% per annum, based on 3.00% inflation and 1.00% real wage inflation.

CITY OF LAKE MILLS

Notes to Financial Statements

June 30, 2016

The actuarial assumptions used in the June 30, 2015 valuation were based on the results of actuarial experience studies with dates corresponding to those listed above.

Mortality rates were based on the RP-2000 Mortality Table for Males or Females, as appropriate, with adjustments for mortality improvements based on Scale AA.

The long-term expected rate of return on IPERS' investments was determined using a building-block method in which best-estimate ranges of expected future real rates (expected returns, net of investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of geometric real rates of return for each major asset class are summarized in the following table:

Asset Class	Asset Allocation	Long-Term Expected Real Rate of Return
Core plus fixed income	28%	2.04%
Domestic equity	24	6.29
International equity	16	6.75
Private equity/debt	11	11.32
Real estate	8	3.48
Credit opportunities	5	3.63
U.S. TIPS	5	1.91
Other real assets	2	6.24
Cash	1	(0.71)
Total	100%	

Discount Rate - The discount rate used to measure the total pension liability was 7.5 percent. The projection of cash flows used to determine the discount rate assumed employee contributions will be made at the contractually required rate and contributions from the City will be made at contractually required rates, actuarially determined. Based on those assumptions, the IPERS' fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on IPERS' investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the City's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate - The following presents the City's proportionate share of the net pension liability calculated using the discount rate of 7.5 percent, as well as what the City's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1% lower (6.5%) or 1% higher (8.5%) than the current rate.

	1% Decrease (6.5%)	Discount Rate (7.5%)	1% Increase (8.5%)
City's proportionate share of the net pension liability	\$ 1,073,932	519,118	(51,025)

CITY OF LAKE MILLS

Notes to Financial Statements

June 30, 2016

Pension Plan Fiduciary Net Position - Detailed information about the IPERS' fiduciary net position is available in the separately issued IPERS financial report which is available on IPERS' website at www.ipers.org.

(5) Other Postemployment Benefits (OPEB)

Plan Description - The City operates a single-employer retiree benefit plan which provides medical/prescription drug and dental benefits for retirees and their spouses. There are 20 active and 1 retired members in the plan. Participants must be age 55 or older at retirement.

The medical/prescription drug benefits are provided through a fully-insured plan with UnitedHealthcare. Retirees under age 65 pay the same premium for the medical/prescription drug benefits as active employees.

The dental benefits are provided through a fully-insured plan with Delta Dental. Retirees pay the same premium for dental benefits as active employees.

Funding Policy - The contribution requirements of plan members are established and may be amended by the City. The City currently finances the retiree benefit plan on a pay-as-you-go basis. For the year ended June 30, 2016, the City contributed \$252,044 and plan members eligible for benefits contributed \$32,389 to the plan.

(6) Compensated Absences

City employees accumulate a limited amount of earned but unused vacation and sick leave hours for subsequent use or for payment upon termination, retirement or death. Sick leave hours are accumulated for subsequent use and are paid out to employees having at least fifteen years of service upon termination, retirement, or death. These accumulations are not recognized as disbursements by the City until used or paid. The City's approximate liability for earned vacation and sick leave payable to employees at June 30, 2016, is as follows:

<u>Type of Benefit</u>	<u>Amount</u>
Vacation	\$ 68,870
Sick	<u>108,870</u>
	<u>\$177,740</u>

This liability has been computed based on rates of pay in effect at June 30, 2016.

CITY OF LAKE MILLS

Notes to Financial Statements

June 30, 2016

(7) Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2016 is as follows:

Transfer to	Transfer from	Amount
General	Special Revenue:	
	Employee Benefits	\$ 160,553
	Emergency Fund	11,515
	Urban Renewal Tax Increment	4,493
	Capital Projects	<u>2,848</u>
		179,409
	Enterprise:	
	Electric	<u>221,371</u>
		<u>400,780</u>
Special Revenue: Road Use Tax	Special Revenue: Employee Benefits	<u>7,911</u>
Debt Service	Special Revenue: Urban Renewal Tax Increment	<u>301,900</u>
Capital Projects	Special Revenue:	
	Urban Renewal Tax Increment	376,186
	Road Use Tax	<u>29,813</u>
		405,999
	Enterprise:	
	Sewer	<u>44,712</u>
		<u>450,711</u>
Enterprise: Electric Sewer	Special Revenue: Urban Renewal Tax Increment	25,000
	Capital Projects	<u>45</u>
		<u>25,045</u>
		<u>\$1,186,347</u>

Transfers generally move resources from the fund statutorily required to collect the resources to the fund statutorily required to disburse the resources.

(8) Related Party Transactions

The City had business transactions between the City and City officials, during the year ended June 30, 2016, totaling \$316.

(9) Risk Management

The City is a member in the Iowa Communities Assurance Pool, as allowed by Chapter 670.7 of the Code of Iowa. The Iowa Communities Assurance Pool (Pool) is a local government risk-sharing pool whose 746 members include various governmental entities throughout the State of Iowa. The Pool was formed in August 1986 for the purpose of managing and funding third-party liability claims against its members. The Pool provides coverage and protection in the following categories: general liability, automobile liability, automobile physical damage, public officials liability, police professional liability, property, inland marine, and boiler/machinery. There have been no reductions in insurance coverage from prior years.

CITY OF LAKE MILLS

Notes to Financial Statements

June 30, 2016

Each member's annual casualty contributions to the Pool fund current operations and provide capital. Annual casualty operating contributions are those amounts necessary to fund, on the cash basis, the Pool's general and administrative expenses, claims, claim expenses and reinsurance expenses estimated for the fiscal year, plus all or any portion of any deficiency in capital. Capital contributions are made during the first six years of membership and are maintained at a level determined by the Board not to exceed 300% of basis rate.

The Pool also provides property coverage. Members who elect such coverage make annual operating contributions which are necessary to fund, on a cash basis, the Pool's general and administrative expenses and reinsurance premiums, losses and loss expenses for property risks estimated for the fiscal year, plus all or any portion of any deficiency in capital. Any year-end operating surplus is transferred to capital. Deficiencies in operations are offset by transfers from capital and, if insufficient, by the subsequent year's member contributions.

The City's property and casualty contributions to the risk pool are recorded as disbursements from its operating funds at the time of payment to the risk pool. The City of Lake Mills' annual contributions to the Pool for the year ended June 30, 2016 were \$79,799.

The Pool uses reinsurance and excess risk-sharing agreements to reduce its exposure to large losses. The Pool retains general, automobile, police professional, and public officials' liability risks up to \$350,000 per claim. Claims exceeding \$350,000 are reinsured through reinsurance and excess risk-sharing agreements up to the amount of risk-sharing protection provided by the City's risk-sharing certificate. Property and automobile physical damage risks are retained by the Pool up to \$250,000 each occurrence, each location. Property risks exceeding \$250,000 are reinsured through reinsurance and excess risk-sharing agreements up to the amount of risk-sharing protection provided by the City's risk-sharing certificate.

The Pool's intergovernmental contract with its members provides that in the event a casualty claim, property loss or series of claims or losses exceeds the amount of risk-sharing protection provided by the City's risk-sharing certificate, or in the event a casualty claim, property loss or series of claims or losses exhausts the Pool's funds and any excess risk-sharing recoveries, then payment of such claims or losses shall be the obligation of the respective individual member against whom the claim was made or the loss was incurred.

Members agree to continue membership in the Pool for a period of not less than one full year. After such period, a member who has given 60 days' prior written notice may withdraw from the Pool. Upon withdrawal, payments for all casualty claims and claims expenses become the sole responsibility of the withdrawing member, regardless of whether a claim was incurred or reported prior to the member's withdrawal. Upon withdrawal, a formula set forth in the Pool's intergovernmental contract with its members is applied to determine the amount (if any) to be refunded to the withdrawing member.

The City also carries commercial insurance purchased from other insurers for coverage associated with excess crime and airport liability in the amount of \$24,494. The City assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

CITY OF LAKE MILLS

Notes to Financial Statements

June 30, 2016

(10) Subsequent Events

In August 2016, the City approved a \$100,000 general obligation loan for purchase of a fire truck in amount of \$200,678.

(11) New Accounting Pronouncement

The City of Lake Mills adopted fair value guidance as set forth in Governmental Accounting Standards Board Statement No. 72, Fair Value Measurement and Application. The Statement sets forth guidance for determining and disclosing the fair value of assets and liabilities reported in the financial statements. Adoption of the guidance did not have a significant impact on amounts reported or disclosed in the financial statements.

OTHER INFORMATION

City of Lake Mills

Budgetary Comparison Schedule of Receipts, Disbursements, and Changes in Balances – Budget and Actual (Cash Basis) – All Governmental Funds and Proprietary Funds

Other Information

Year ended June 30, 2016

	Governmental Funds Actual	Proprietary Funds Actual	Total	Budgeted Amounts		Final to Total Variance
				Original	Final	
Receipts:						
Property tax	\$ 555,541		555,541	550,321	550,321	5,220
Tax increment financing	803,693		803,693	815,770	815,770	(12,077)
Other city tax	189,305		189,305	202,709	202,709	(13,404)
Licenses and permits	6,459		6,459	5,150	5,450	1,009
Use of money and property	117,356	96,585	213,941	177,300	177,300	36,641
Intergovernmental	347,455		347,455	249,865	261,435	86,020
Charges for services	257,896	3,995,351	4,253,247	4,453,118	4,453,118	(199,871)
Special assessments	26,448		26,448			26,448
Miscellaneous	154,899	177,146	332,045	127,605	181,000	151,045
Total receipts	2,459,052	4,269,082	6,728,134	6,581,838	6,647,103	81,031
Disbursements:						
Public safety	546,417		546,417	575,304	579,748	33,331
Public works	423,453		423,453	532,654	485,949	62,496
Culture and recreation	452,252		452,252	453,946	480,092	27,840
Community and economic development	100,026		100,026	87,988	113,663	13,637
General government	102,759		102,759	112,933	116,022	13,263
Debt service	321,900		321,900	311,900	321,900	
Capital projects	205,923		205,923	514,837	600,872	394,949
Business type activities		3,838,869	3,838,869	4,019,964	4,740,890	902,021
Total disbursements	2,152,730	3,838,869	5,991,599	6,609,526	7,439,136	1,447,537
Excess (deficiency) of receipts over (under) disbursements	306,322	430,213	736,535	(27,688)	(792,033)	1,528,568
Other financing sources, net	241,038	(241,038)				
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	547,360	189,175	736,535	(27,688)	(792,033)	1,528,568
Balances beginning of year	2,944,789	10,611,082	13,555,871	12,907,031	12,907,031	648,840
Cash balances end of year	\$ 3,492,149	10,800,257	14,292,406	12,879,343	12,114,998	2,177,408

See accompanying independent auditor's report.

City of Lake Mills

Notes to Other Information – Budgetary Reporting

June 30, 2016

The budgetary comparison is presented in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon nine major classes of disbursements known as functions, not by fund. These nine functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects and business type activities. Function disbursements required to be budgeted include disbursements for the General Fund, the Special Revenue Funds, the Debt Service Fund, the Capital Projects Funds and the Enterprise Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, one budget amendment increased budgeted disbursements by \$829,610. The budget amendment is reflected in the final budgeted amounts.

City of Lake Mills
Schedule of the City's Proportionate Share of the Net Pension Liability

Iowa Public Employees' Retirement System
For the Last Two Years*

Other Information

	<u>2016</u>	<u>2015</u>
City's proportion of the net pension liability	0.0105075	0.0100773
City's proportionate share of the net pension liability	\$ 519,119	\$399,655
City's covered-employee payroll	\$1,035,532	1,025,589
City's proportionate share of the net pension liability as a percentage of its covered-employee payroll	50.13%	38.97%
IPERS' net position as a percentage of the total pension liability	85.19%	87.61%

* In accordance with GASB Statement No. 68, the amounts presented for each fiscal year were determined as of June 30 of the preceding fiscal year.

See accompanying independent auditor's report.

City of Lake Mills
Schedule of City Contributions

Iowa Public Employees' Retirement System
Last 10 Fiscal Years

Other Information

	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
Statutorily required contribution	\$ 98,967	95,696	94,744	88,065	83,015	75,868	67,921	63,548	58,384	55,372
Contributions in relation to the statutorily required contribution	98,967	95,696	94,744	88,065	83,015	75,868	67,921	63,548	58,384	55,372
Contribution deficiency (excess)										
City's covered-employee payroll	\$ 1,080,571	1,035,532	1,025,589	968,335	969,420	983,108	928,788	924,918	881,474	844,317
Contributions as a percentage of covered-employee payroll	9.16%	9.24%	9.24%	9.09%	8.56%	7.72%	7.31%	6.87%	6.62%	6.56%

See accompanying independent auditor's report.

City of Lake Mills

Notes to Other Information – Pension Liability

Year ended June 30, 2016

Changes of benefit terms:

Legislation enacted in 2010 modified benefit terms for current Regular members. The definition of final average salary changed from the highest three to the highest five years of covered wages. The vesting requirement changed from four years of service to seven years. The early retirement reduction increased from 3% per year measured from the member's first unreduced retirement age to a 6% reduction for each year of retirement before age 65.

In 2008, legislative action transferred four groups – emergency medical service providers, county jailers, county attorney investigators, and National Guard installation security officers – from Regular membership to the protection occupation group for future service only.

Changes of assumptions:

The 2014 valuation implemented the following refinements as a result of a quadrennial experience study:

- Decreased the inflation assumption from 3.25% to 3.00%
- Decreased the assumed rate of interest on member accounts from 4.00% to 3.75% per year.
- Adjusted male mortality rates for retirees in the Regular membership group.
- Reduced retirement rates for sheriffs and deputies between the ages of 55 and 64.
- Moved from an open 30 year amortization period to a closed 30 year amortization period for the UAL beginning June 30, 2014. Each year thereafter, changes in the UAL from plan experience will be amortized on a separate closed 20 year period.

The 2010 valuation implemented the following refinements as a result of a quadrennial experience study:

- Adjusted retiree mortality assumptions.
- Modified retirement rates to reflect fewer retirements.
- Lowered disability rates at most ages.
- Lowered employment termination rates
- Generally increased the probability of terminating members receiving a deferred retirement benefit.
- Modified salary increase assumptions based on various service duration.

The 2007 valuation adjusted the application of the entry age normal cost method to better match projected contributions to the projected salary stream in the future years. It also included in the calculation of the UAL amortization payments the one-year lag between the valuation date and the effective date of the annual actuarial contribution rate.

SUPPLEMENTARY INFORMATION

City of Lake Mills

Schedule of Cash Receipts, Disbursements and Changes in Cash Balances
Nonmajor Governmental Funds

As of and for the year ended June 30, 2016

	Special Revenue				Permanent	
	Emergency	Employee Benefits	Revolving Loan Fund	First Time Home Buyers	Trust & Agency	Total
Receipts:						
Property tax	\$ 11,017	161,180				172,197
Use of money and property			1,362		51	1,413
Intergovernmental	498	7,284				7,782
Miscellaneous			20,328	11,510	36,523	68,361
Total receipts	11,515	168,464	21,690	11,510	36,574	249,753
Disbursements:						
Operating:						
Public works					14,449	14,449
Community and economic development			10	11,510		11,520
General government					12,017	12,017
Total disbursements			10	11,510	26,466	37,986
Excess of receipts over disbursements	11,515	168,464	21,680		10,108	211,767
Other financing sources (uses):						
Transfers out	(11,515)	(168,464)				(179,979)
Change in cash balances			21,680		10,108	31,788
Cash balances beginning of year			11,743		40,875	52,618
Cash balances end of year			33,423		50,983	84,406
Cash Basis Fund Balances						
Nonspendable - permanent fund					50,983	50,983
Restricted for other purposes			33,423			33,423
Total cash basis fund balances			33,423		50,983	84,406

See accompanying independent auditor's report.

City of Lake Mills

Schedule of Indebtedness

Year ended June 30, 2016

Obligation	Date of Issue	Rate of Interest	Amount Originally Issued	Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid
General Obligation Bonds:								
Iowa Department of Public Safety	10-4-07	0.00%	100,000	\$ 20,000		20,000		
G.O. Urban Renewal	5-18-09	1.85% - 3.25%	900,000	300,000		100,000	200,000	9,000
G.O. Refunding	5-23-12	0.50% - 1.00%	840,000	190,000		190,000		1,900
Total General Obligation Bonds				510,000		310,000	200,000	10,900
Revenue Bonds:								
Water SRF	8-20-08	3.00	540,000	363,000		28,000	335,000	10,890
Total Revenue Bonds				363,000		28,000	335,000	10,890
Total				\$ 873,000		338,000	535,000	21,790

See accompanying independent auditor's report.

City of Lake Mills

Bond Maturities

June 30, 2016

Year Ending June 30,	General Obligation Bonds		Revenue Bonds	
	G.O. Urban Renewal Storm Water		Water Revenue Bonds	
	Issued May 18, 2009		Issued August 20, 2008	
	Interest Rates	Amount	Interest Rates	Amount
2017	3.00%	\$ 100,000	3.00%	29,000
2018	3.25	100,000	3.00	30,000
2019			3.00	31,000
2020			3.00	32,000
2021			3.00	33,000
2022			3.00	34,000
2023			3.00	35,000
2024			3.00	36,000
2025			3.00	37,000
2026			3.00	38,000
Total		<u>\$ 200,000</u>		<u>335,000</u>

See accompanying independent auditor's report.

City of Lake Mills

Schedule of Receipts by Source and Disbursements by Function -
All Governmental Funds

For the Last Ten Years

	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
Receipts:										
Property tax	\$ 555,541	574,950	572,508	556,295	508,187	492,105	483,680	470,325	444,956	482,027
Tax increment financing	803,693	767,112	806,870	867,913	1,033,506	1,040,827	996,417	875,568	839,293	752,995
Other city tax	189,305	211,088	198,300	194,893	184,210	172,008	151,950	187,675	147,735	154,214
Licenses and permits	6,459	5,339	5,590	4,968	3,953	3,622	3,806	3,163	4,888	5,350
Use of money and property	117,356	95,969	135,656	129,245	70,908	57,943	41,426	70,813	131,774	133,847
Intergovernmental	347,455	285,493	323,393	283,734	365,666	258,010	269,734	278,738	382,721	299,242
Charges for service	257,896	246,846	275,207	257,476	243,286	240,793	232,567	243,213	238,976	239,900
Special assessments	26,448	28,225	29,677	32,161	39,088	81,370	44,082	54,971	43,074	141,176
Miscellaneous	154,899	169,829	300,304	99,382	116,720	99,152	72,315	145,596	147,537	141,636
Total	\$ 2,459,052	2,384,851	2,647,505	2,426,067	2,565,524	2,445,830	2,295,977	2,330,062	2,380,954	2,350,387
Disbursements:										
Operating:										
Public safety	\$ 546,417	576,873	698,910	573,078	515,919	552,123	532,505	606,646	537,552	435,163
Public works	423,453	439,916	398,401	362,678	370,515	383,195	360,746	423,272	490,300	380,796
Culture and recreation	452,252	392,101	399,631	367,390	358,442	360,562	348,472	388,546	375,441	300,204
Community and economic development	100,026	114,493	146,902	115,660	545,232	199,484	123,659	91,216	316,102	209,294
General government	102,759	91,823	89,567	80,753	91,179	80,704	77,306	80,646	95,505	79,751
Debt service	321,900	315,920	309,250	412,781	1,261,554	576,962	581,738	456,983	442,778	525,228
Capital projects	205,923	417,489	365,021	736,320	109,570	199,781		329,571	62,948	140,155
Total	\$ 2,152,730	2,348,615	2,407,682	2,648,660	3,252,411	2,352,811	2,024,426	2,376,880	2,320,626	2,070,591

See accompanying independent auditor's report.



**Renner &
Birchem, PC**

Certified Public Accountants

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Independent Auditor's Report on Internal Control
over Financial Reporting and on Compliance and Other Matters
Based on an Audit of Financial Statements Performed in Accordance
with Government Auditing Standards

To the Honorable Mayor and
Members of the City Council:

We have audited in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of City of Lake Mills, Iowa, as of and for the year ended June 30, 2016, and the related Notes to Financial Statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated September 19, 2016. Our report expressed unmodified opinions on the financial statements which were prepared on the basis of cash receipts and disbursements, a basis of accounting other than U.S. generally accepted accounting principles.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City of Lake Mills's internal control over financial reporting to determine the audit procedures appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Lake Mills's internal control. Accordingly, we do not express an opinion on the effectiveness of the City of Lake Mills's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses and, therefore, significant deficiencies or material weaknesses may exist that were not identified. However, as described in the accompanying Schedule of Findings, we identified deficiencies in internal control we consider to be material weaknesses.

A deficiency in internal control exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of City of Lake Mills' financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiency described in Part I of the accompanying Schedule of Findings as item I-A-16 to be material weakness.

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Compliance and Other Matters

As part of obtaining reasonable assurance about whether City of Lake Mills's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters which are described in Part II of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2016 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

City of Lake Mills's Responses to the Findings

City of Lake Mills's responses to the findings identified in our audit are described in the accompanying Schedule of Findings. City of Lake Mills's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing and not to provide an opinion on the effectiveness of the City's internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of City of Lake Mills during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

September 19, 2016



Renner & Bircherm, P.C.
Britt, Iowa

City of Lake Mills

Schedule of Findings

Year Ended June 30, 2016

Part I: Findings Related to the Financial Statements:

Significant Deficiencies:

I-A-16 Segregation of Duties - One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. The areas of cash receipts and the disbursements, investments, and payroll under ideal conditions would be segregated.

Recommendation - We realize that with a limited number of employees segregation of duties is difficult. The City has implemented certain procedures to improve internal control. However, the City should continue to review its operating procedures to obtain the maximum internal control possible under the circumstances.

Response - We will investigate this and continue to implement procedures where possible.

Conclusion - Response acknowledged. The City should segregate duties to the extent possible with existing personnel and utilize administrative personnel to provide additional control through review of financial transactions and reports.

Instances of Non-Compliance:

No matters were noted.

City of Lake Mills

Schedule of Findings

Year Ended June 30, 2016

Part II: Other Findings Related to Statutory Reporting:

II-A-16 Certified Budget – Disbursements during the year ended June 30, 2016 did not exceed the amounts budgeted.

II-B-16 Questionable Disbursements – No disbursements were noted that may not meet the requirements of public purpose as defined in the Attorney General’s opinion dated April 25, 1979 or that were not properly documented. The City has established written policies and procedures, including the requirements for proper documentation, as part of their adopted administrative policies.

II-C-16 Travel Expense - No disbursements of City money for travel expenses of spouses of City officials or employees were noted.

II-D-16 Business Transactions – Business transactions between the City and City officials or employees are detailed as follows:

<u>Name, Title, and Business Connection</u>	<u>Transaction Description</u>	<u>Amount</u>
Candy Hanna, Mayor Owner, Dura Clean	Cleaning	\$ 316

In accordance with Chapter 362.5(3)(j) of the Code of Iowa, the transactions with the mayor Hanna does not appear to represent a conflict of interest since total transactions were less than \$1,500 during the fiscal year.

II-E-16 Bond Coverage - Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to ensure the coverage is adequate for current operations.

II-F-16 Council Minutes - No transactions were found that we believe should have been approved in the Council minutes but were not.

II-G-16 Deposits and Investments - We noted no instances of noncompliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the City's investment policy.

II-H-16 Revenue Note – No instances of non-compliance with the revenue bond and note resolution were noted.

II-I-16 Urban Renewal Annual Report – The urban renewal annual report was properly approved and certified to the Iowa Department of Management on or before December 1 and no exceptions were noted.